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SEE PAGE 51

veterinary economics

THE MAGAZINE OF PRACTICE MANAGEMENT AND FINANCE

SPOTLIGHT ON ASSOCIATES

A special issue for recent graduates and their employers

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MEMO FROM THE EDITOR

A meeting of the minds

I suppose it's an age-old problem: Employees complain about their bosses, and bosses complain about their employees. But if there's ever been a compelling reason to actually *solve* this problem, I think you'll find it in veterinary medicine. Why? Because the animosity that seems to poison more than a few owner/associate relationships may, in fact, bring with it more practices, less efficiency, lower incomes, and the smoldering demise of colleagueship.

Sound dramatic? It is, when you consider that the ever-growing number of practices in this country may have less to do with class size and the ruggedly individualistic veterinarian, and more to do with the fact that practice owners and their employed veterinarians can't seem to get along. And unless a solution is found, the story of the impossible owner and the brash young associate who opens a practice down the street will continue, *ad nauseam*.

I can see why sides develop. With students who don't know how valuable communication skills will be (page 12), practice owners who rightly insist they set the rules (page 59), and associates who rightly insist they be treated with respect (page 76), it's no wonder there's friction. I do wonder why, however, there's so little compromise. Maybe it's the "When I was your age, I walked five miles through the snow" syndrome: Most practice owners *were* associates at some point in time, yet many seem to perceive that today's associates have it so much easier than they did.

To help bring about a meeting of the minds, we've assembled an issue here that I think provides something for everyone. And I don't mean ammunition. Sure, there's a good chance that someone in here stands firmly behind your perception of the situation. But this compilation of material might prove more useful if you concentrate on understanding the *other* points of view. For example, practice owners, take a look at what your associates are up against in terms of debt, salary, and sheer intimidation. And associates, look at what your bosses are up against in terms of economics, clients, and sheer responsibility. Then, everybody look at all the suggestions offered here for how to get along. And lest you forget why you got into this mess in the first place, start with page 9. There you'll find a prediction that the age-old story *can*, indeed, have a rosy ending.

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veterinary economics

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Why do women DVMs make less money?
How to beat the lingering recession
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veterinary economics
ATTRACTING AND KEEPING TOP TALENT AND PROFITS
A SALARY REPORT BY OWEN McCAFFERTY, CPA

CHALLENGE 1992

AN INSIDE LOOK AT ASSOCIATE PAY

In part 4 of his survey report on staff compensation and benefits, Owen McCafferty focuses on what associates are being paid.

By Owen McCafferty, CPA

Editor's note: In the January 1992 issue, we kicked off a four-part series of reports based on a salary survey conducted by Owen McCafferty and VETERINARY ECONOMICS. *McCafferty and his team of accountants analyzed the survey responses. In part 1, McCafferty pointed out that the purpose of the survey is to take a look at veterinary practices today, and to identify trends that may affect your practice in the future. He noted that the figures don't account for 1990 and 1991 inflation, and should be carefully considered in tandem with his commentary.*

In January's report, McCafferty discussed salary trends for technicians, receptionists, bookkeepers, office managers, and practice managers. In February, he discussed groomers and kennel workers, and in March he turned his sights to practice owners. This month, he tackles pay for non-owner veterinarians.

On page 51, you'll find this year's survey form. To participate in McCafferty's ground-breaking, long-range effort to take a systematic look at staff compensation, please complete and return the survey today!

For associates who've been in practice 1 to 2 years, the survey shows a direct correlation between hours worked and compensation. These associates work an average of 2,279 hours per year, at an average pay per hour of $12.09—for a total 1990 compensation of $27,556. However, a doctor who earns $45,000 in the 1- to 2-year level works 3,380 hours a year, for an effective hourly rate of $13.31.

Taking into account 1990 and 1991 inflation, we estimate the current salary for new graduates to be $26,525. For doctors with one year of completed service, we estimate a current salary level of $30,769. These estimates do *not* include profit-sharing, pension plans, or medical insurance.

As a percentage of gross income, 1- to 2-year associates are paid an average of 15.82 percent, with the range starting at 5 percent and topping out at 25 percent. These findings are surprising; we expected the percentage of gross income for 1- to 2-year associates to range between 18 and 22 percent, with an average of 19 to 20 percent.

(Note: We believe that the respondent reporting "5 percent" misinterpreted the question, perhaps mistaking "gross" for *practice* gross, which would make sense, for example, in a four-doctor practice. The high-end response—25 percent —came from an equine practice. We found that track practices pay a higher percentage of gross and a higher average salary; the number of hours worked per year is higher as well.)

The 15.82-percent average seems to indicate that many veterinary employers consider the first 1 to 2 years of practice to be a period of internship and residency. As you'll see, the gross income and percentage-of-gross rates for doctors with more experience increases, as we typically expect. Generally, in the early years of service to a practice, an associate receives a base wage. Then, as he or she gains experience and medical acumen, compensation based on a percentage of gross income

THE AUTHOR heads a Cleveland, Ohio, accounting firm devoted to tax and practice management assistance for veterinarians.

1- TO 2-YEAR ASSOCIATES

AVERAGE ANNUAL HOUR AND PAY STATISTICS

	Average	Minimum	Maximum
Pay per hour	$12.09	$9.86	$20.00
Pay as % of individual gross	15.82%	5.0%	25.0%
Pay per year	$27,555.71	$10,000.00	$45,000.00
Number of hours worked	2,278.93	1,300.0	3,380.0
Number of associates	1.23	0.75	5.0
Number of vacation hours	79.09	40.0	120.0
Number of holiday hours	42.15	16.0	64.0
Number of sick hours	47.23	16.0	200.0

AVERAGE ANNUAL BENEFITS STATISTICS

	Average	Minimum	Maximum
Contribution for pension/ profit-sharing plan	$3,788.00	$400.00	$10,000.00
Contribution for health-insurance benefit	$1,196.81	$107.00	$4,400.00
Contribution for unreimbursed medical expenses	$566.67	$100.00	$1,200.00
Contribution for child-care benefit	*	*	*
Contributions for other benefits	$1,172.00	$30.00	$3,255.00
Contribution for continuing education	$533.07	$100.00	$1,500.00
Number of days offered for continuing education	4.23	1.0	7.0

*None provided

becomes more realistic to offer.

On average, practices employ 1.23 associates in the 1- to 2-year category, with the range starting at 0.75 and growing to 5. This low average indicates that the number of new graduates hired is less than it used to be. We also found that the number of doctors in the 3- to 4-year category is equal to the number in the 1- to 2-year category, indicating that more practices are acquiring and hanging on to experienced doctors. These doctors, it seems, don't look for alternative opportunities as quickly as they did in previous years.

Annual vacation hours for the 1- to 2-year associate average a normal 79 hours, or two weeks. At 42 hours per year, holiday time also coincides with our expectations. As for time off for illness, the responses range from 16 to 200 hours per year, with an average of 47. Our best interpretation is that the 200 hours includes time off for situations of both illness and disability.

In the benefits category, we were surprised to see that some practices generously offer profit-sharing and pension plans. For the 1- to 2-year veterinarian, the average amount contributed annually to a pension or profit-sharing plan is $3,788, or about 13.75 percent of gross income. Remember, however, that many practices don't offer such plans, and that the numbers here represent only those that do. The range: $400 to $10,000. We believe that the $10,000 figure represents the contribution to a combination pen-

sion and profit-sharing plan.

We found that profit-sharing plans are much more popular than pension plans for those practices that have a qualified deferred-compensation arrangement. This finding confirms our theory that practitioners are abandoning pension plans and, if offering any plans at all, moving toward profit-sharing plans. In fact, many are terminating both kinds of plans.

Health insurance is a much more common benefit. Amounts range from $107 to $4,400 for doctors at the 1- to 2-year level. The average, $1,197, approximates what single coverage would be in most geographic areas. These valuable findings indicate a growing tendency to offer health-insurance coverage. Contributions toward unreimbursed medical expenses range from $100 to $1,200, with an average of about $567. Often, these plans seem to be substitutes for health insurance. Under such a plan, employees decide how they wish to disburse their medical expenses—either for medical insurance or other forms of medical cost outside of insurance.

Unreimbursed medical-expense plans seem to be more popular with those practices that hire married individuals—perhaps because these people have spouses who provide other coverage. Unreimbursed medical-expense plans give doctors an extra benefit that would normally be wasted by duplicate coverage under a health-insurance program.

We found that no respondents offer child care for non-owning doctors at the 1- to 2-year level. This finding comes as no surprise, because younger practitioners usually don't have children. Yet, the child-care benefit is likely to grow in popularity, and may be extended to these practitioners as well in the years to come.

When asked what other benefits they provide, the respondents listed such items as paid personal days, coffee, soft drinks, uniforms, malpractice insurance, year-end bonuses, licenses, liability insurance, association memberships, pet care, dues, gas, discounts for services and products, workers' compensation, group life and disability insurance, automobile usage, business lunches, journals, seminars, incentive plans, gifts, and more. The total cost: an average of $1,172, with a range of $30 to $3,255 per year.

This list indicates that some respondents view items normally considered a cost of doing business as fringe benefits. For example, we consider malpractice insurance, license payments, continuing education, and journals expenses employer should provide to keep employees at their highest level of competence.

The survey revealed few surprises regarding continuing education for new doctors. Expenditures range from $100 to $1,500 per year, with an average of $533. The respondents also offer an average of 4.23 days for CE, plus payments for tuition, travel expenses, and subsistence. New doctors really have just completed four years of CE; the generous offering of four days is probably designed to maintain the medical knowledge the associates bring with them to the practice, and to help them acquire the wisdom and judgment to apply what they know in an exam-room situation.

Practice owners give themselves an average of 6.7 days for CE, probably because they have a greater knowledge base to maintain, plus specialty interests, such as dentistry. Associates, who may lack the authority to pursue more CE or the fee base to support it, also are still deciding the areas of medicine in which to concentrate. Their CE is more likely to be for relicensure than for new skills. In some professions—such as accounting—licensure isn't even granted until the candidate has acquired a minimum of two years' experience. Perhaps the same theory for licensure should be considered by veterinarians.

3- to 4-year associates

The hourly pay rate for these doctors increases slightly over that of their 1- to 2-year colleagues —from $12.09 to $14.72 an hour. The range: from $8.50 to $25 an hour. Keep in mind, though, that these are not categorical comparisons, because some practices have 1- to 2-year *owners*, 3- to 4-year *non-owners*, and vice versa.

It's no surprise that average pay as a percentage of individual gross is higher at the 3- to 4-year level. On average, the pay represents 20.86 percent of gross income, with a range of 7 to 35 per-

3- TO 4-YEAR ASSOCIATES

AVERAGE ANNUAL HOUR AND PAY STATISTICS

	Average	Minimum	Maximum
Pay per hour	$14.72	$8.50	$25.00
Pay as % of individual gross	20.86%	7.0%	35.0%
Pay per year	$34,612.42	$18,000.00	$67,661.00
Number of hours worked	2,459.97	1,768.0	3,380.0
Number of associates	1.2	1.0	3.0
Number of vacation hours	88.51	40.0	168.0
Number of holiday hours	45.57	24.0	64.0
Number of sick hours	53.0	16.0	200.0

AVERAGE ANNUAL BENEFITS STATISTICS

	Average	Minimum	Maximum
Contribution for pension/ profit-sharing plan	$3,378.18	$948.00	$10,000.00
Contribution for health-insurance benefit	$1,401.91	$420.00	$4,400.00
Contribution for unreimbursed medical expenses	$500.00	$100.00	$1,000.00
Contribution for child-care benefit	*	*	*
Contributions for other benefits	$781.82	$200.00	$2,200.00
Contribution for continuing education	$588.33	$100.00	$1,500.00
Number of days offered for continuing education	4.71	1.0	12.0

*None provided

cent. The high end was more characteristic of practices with emergency services. Again, those who answered 7 percent probably misunderstood the question.

We found that the percentage rate paid was affected by gross income produced. For practices in which the average gross per doctor is low, the average pay as a percentage of gross is *higher*, presumably to provide a living wage. For the very profitable practice, the percentage of gross is lower, because adequate dollars are available to provide a just wage.

Annual compensation falls between $18,000 and $67,661 a year, with the average being $34,612. Critical to an analysis of these numbers, however, are the numbers of hours worked per year, which ranged from 1,768 up to 3,380. Those practices with the highest pay and the most hours worked tend to be equine track practices. In fact, we found salaries in these practices to be 70- to 80-percent higher than in most practice situations—a testament to back-breaking hours.

The number of 3- to 4-year doctors in the average practice is 1.2. The responses indicate a range of 1 to 3 associates per practice, whereas the range for 1- to 2-year associates spans from about 1 to 5. Not surprising findings: As practices grow, the more-experienced doctors are less evident.

A pyramid structure appears to evolve, with experienced doctors assisting the newcomers. Practices top-heavy with experienced doctors should be sure they take

full advantage of the knowledge and wisdom these doctors can offer new associates. You must decide how best to use your experienced doctors in relation to your inexperienced doctors.

The survey findings also may point to the experience level at which associates begin to look toward owning their own practices. The lower maximum at the 3- to 4-year level could indicate that these doctors are considering partnership opportunities or setting up their own practices. On the other hand, the average number of associates in the two lowest levels is nearly the same, which may simply mean that employers are choosing not to staff a more experienced level of doctors.

Associates in the 3- to 4-year category are offered, on average, 88.5 hours of vacation each year—10 hours more than that offered to new doctors. Holidays, however, tend to be about the same, with the more-experienced doctors receiving 45.5 hours a year. The minimum number of hours, 24, is higher than the minimum for newer associates, probably because they are more likely to work full-time.

Veterinarians in the 3- to 4-year category are offered more sick leave: 53 hours per year compared to 47 hours per year for their less-experienced colleagues. Of course, because the 3- to 4-year doctors receive more sick hours and holidays, longer vacation, and higher compensation, they must be more productive.

Benefits and other costs of employment generally increase for these doctors, but we found surprising exceptions. For example, the average contribution for pension and profit-sharing plans is $3,378, compared to $3,788 at the 1- to 2-year level. This differential may result from the plans' vesting schedules. Most plans don't provide complete vesting in the first two years of service, so some practices offer greater benefits to employees at the 1-to 2-year level. As the experienced doctors become more vested, the amount of contribution, on average, declines.

Nevertheless, the minimum contribution increased from $400 at the 1-to 2-year level to $948 at the 3- to 4-year level. This increase is probably due to a higher compensation base, as well as a greater probability that the more-experienced doctors encourage their employers to maintain some sort of pension and profit-sharing plan coverage. The maximum contribution topped off at $10,000 for both levels.

At the 3- to 4-year level, costs for health-insurance benefits increased to $1,402 per year, with the doctors more interested in family coverage and more likely to request additional coverage. On the high end, costs for the two levels are the same, $4,400, most likely because the ages are too close to cause an actuary increase in premium cost.

Unreimbursed medical expenses for the 3- to 4-year doctor comes to an average of $500 per year, with a range spanning from $100 to $1,000 a year. These numbers are quite similar to those found at the 1- to 2-year level, which probably means that the practice that offered $1,200 per year to the less-experienced doctors does not employ a 3- to 4-year associate.

Child care isn't available thus far at the 3- to 4-year level; and the cost of other benefits spanned from $200 to $2,200, with an average of $782. The average amount spent for CE is $588, compared to $533 for the 1- to 2-year doctor; we expected to see a higher allowance for the more-experienced doctors. The 3- to 4-year doctors are allowed more time for CE, an average of 4.71 days, probably because they are beginning to isolate their interests and hone their capabilities in these interests.

5- to 6-year associates

Again, we found what we expected in the salary level of these doctors. The 5- to 6-year doctor has gained the experience to generate a substantial level of gross income. As a result, the practice can afford to adequately pay this person for services rendered.

The average pay per hour for these doctors rings in at $19.19 per hour, with a range of $14 to $25. Although we'd like to think that the statistics for this level are as reliable as those for the other levels, we did receive the least response in this category. Then again, the pool of associates at the 5- to 6-year level is lower, so the number of responses needed to provide reliable, meaningful statistics is automatically reduced. ▶

5- to 6-YEAR ASSOCIATES

AVERAGE ANNUAL HOUR AND PAY STATISTICS

	Average	Minimum	Maximum
Pay per hour	$19.19	$14.00	$25.00
Pay as % of individual gross	19.88%	9.3%	30.0%
Pay per year	$42,680.00	21,000.00	$71,724.00
Number of hours worked	2,223.6	832.0	4,056.0
Number of associates	1.16	1.0	2.0
Number of vacation hours	100.0	24.0	160.0
Number of holiday hours	40.5	16.0	81.0
Number of sick hours	55.5	40.0	100.0

AVERAGE ANNUAL BENEFITS STATISTICS

	Average	Minimum	Maximum
Contribution for pension/ profit-sharing plan	$2,836.00	$500.00	$5,800.00
Contribution for health-insurance benefit	$2,069.00	$177.00	$5,376.00
Contribution for unreimbursed medical expenses	*	*	*
Contribution for child-care benefit	*	*	*
Contributions for other benefits	$623.33	$520.00	$800.00
Contribution for continuing education	$739.89	$100.00	$1,500.00
Number of days offered for continuing education	5.5	2.0	14.0

*None provided

It also seems that practices keep fewer tabs on the hours and productivity of these associates. We recommend that all doctors be monitored weekly; you'll be able to better determine efficiency levels, and any problems a doctor may be having. As in any office, some employees are tempted to "hang out," making it difficult to accurately determine hours spent *vs.* compensation earned. More accurate numbers provide a benchmark by which to judge how the rest of the staff could be used more effectively.

For 5- to 6-year associates, average pay as a percentage of individual gross income is 19.88 percent, with a range of 9.3 to 30 percent. This finding approximates the 20 percent normally associated with compensation arrangements for experienced doctors. You'll note that the maximum percentage is lower than that for doctors at the 3- to 4-year level. Why? Perhaps because the more-experienced doctors are generally in larger, more-sophisticated practices. The younger doctors may be in practices with a lower gross income; their percentage must therefore be higher to meet a living wage.

We found few surprises in the average pay per year—about $42,680. Keep in mind that this number does not include profit sharing, a benefit received by *some* of the doctors. Those practices without profit-sharing plans usually can afford to pay a higher percentage of compensation. From the average of $42,680, we

project that the average gross generated per doctor in this classification is $213,400.

Compensation typically ranges from 18 to 24 percent, with most doctors falling between 20 and 22 percent. The final numbers are contingent upon the fringe benefits offered and the experience of the doctor. Some of you would like to see one empirical formula for compensation; simplicity, however, breeds inaccuracy. You must evaluate *your* practice situation, and negotiate a fair compensation arrangement; keep in mind, however, that benefits must be nondiscriminatory and applicable —that is, not a disguised form of compensation.

The range of annual pay spans from part-time work at $21,000, to full-time work at $71,724. As in the other levels, the critical factor is the number of hours worked to generate these income levels. One 5- to 6-year doctor, for example, shows 4,056 hours—or 81 hours per week in a 50-week year. These numbers are extraordinarily high, and may cause significant discontent—even health problems. Dollars are not worth risking health, home, and happiness.

Nevertheless, doctors in the 5- to 6-year range may be willing to work above-normal hours in order to generate an income to meet their family obligations. At this experience level, the pressures of supporting a family begin to exert themselves on many doctors. Although this work ethic is admirable, it can be devastating if not controlled.

Some of you would like one formula for compensation; simplicity, however, breeds inaccuracy.

Through this survey, we'll continue to monitor hours to determine if the situation is becoming more acute. It's interesting to note, however, that although 3- to 4-year doctors actually work an average of 200 hours more than the 5- to 6-year doctors, the more-experienced doctors take the prize at the extremes. Only practice owners, who hit 4,160 hours as a maximum, work more.

Note: Practice owners also work the highest average number of hours as well—2,521 per year. This statistic is interesting to consider when a practitioner begins to talk partnership with an associate. It usually comes as a surprise to the associate that the owner works about 200 to 300 hours more a year than he or she does; at the 2,300-hour level, most associates think they work as much as their employers. There are, of course, exceptions.

The average number of 5- to 6-year doctors per practice: 1.16, compared to 1.2 at the 3- to 4-year level, and 1.23 at the 1- to 2-year level. On average, the highest number of owners per practice is 1.36. For the health of a practice, we like to see 1.5 associates for every owner, with each associate generating income beyond what the owner could perform singly. In exchange, the associate receives compensation and education in medical, surgical, and practice management skills. When an associate can no longer gain benefit from the employer's knowledge, he or she normally assesses the wisdom of continued association. In some cases, the associates are tied by "golden handcuffs"—they earn less than an owner but more than they would in another practice. This dilemma only gets worse with time.

Veterinarians in the 5- to 6-year category enjoy the largest number of vacation hours: about 100 per year. Of course, it follows logically that experience demands greater time to sit back, relax, and recharge the batteries. Yet the minimum and maximum vacation hours for these doctors is lower than those offered 3- to 4-year doctors—24 and 160, compared to 40 and 168.

No surprises in the number of holidays: Doctors at the 5- to 6-year level receive 40.5 hours per year, with a range of 16 to 81 hours. The maximum indicates that some practices provide holidays above and beyond those we typically see. It also may be that

the respondent who listed "81" misunderstood the question and combined holiday and vacation time. Whenever possible, we tried to interpret and delineate these assumptions, but it is difficult to read people's minds!

The average number of sick hours offered at the 5- to 6-year level: 55.5, compared to 57.5 at the owner level, 53 at the 3- to 4-year level, and 47 at the 1- to 2-year level. However, the maximum number of sick days drops considerably to 100 hours; in all other categories of professional staffing, the number is at least 200.

Fringe benefits actually dropped, on average, compared to those offered 3- to 4-year doctors. Contributions for profit-sharing plans are $2,836, *vs.* $3,378 for the less-experienced doctors. As a doctor's experience increases, he or she is less likely to be in a practice with high pension and profit-sharing contributions.

Our theory is that the vesting schedules in most plans discourage practice owners from contributing to programs in which a greater portion of contribution is vested sooner. Obviously, at the 1- to 2- year level, the vesting is far less than at the 5- to 6-year level. It then follows that contributions, as a percentage, are dropping. The maximum contribution at the 5- to 6- year level—$5,800—supports this theory, because it is significantly lower than the maximums at the other two levels.

In health insurance, the average cost is $2,069, *vs.* $1,402 at the 3- to 4-year level, and $1,197 at the 1- to 2- year level. Again, as practitioners become more seasoned, their personal financial responsibilities increase, as does the need for family health insurance.

> The 5.5 days of continuing education reflect these doctors' desire to invest in their futures.

The 5- to 6-year associates have no unreimbursed medical-expense plans—a curious finding given that the doctors in the other categories may take advantage of this benefit. Such plans are more likely to exist in smaller practices with less-experienced doctors.

Other fringe benefits average $623, down from the averages in all other categories. This finding probably indicates less misinterpretation of what benefits include. Spending for CE, at $740 per year, is consistent with our experience, and shows an increase over the 1- to 2-, and 3- to 4- year levels. It appears, however, that practices that make a commitment to CE make no distinction between levels of service. We will continue to monitor these trends, based on our belief that less-experienced doctors need less medical CE, while more-experienced doctors need to maintain and hone in on technological changes.

The average number of days offered for CE: 5.5, with a range from 2 to 14 days. Please note that this statistic can be misleading, because most practices that pay on a percentage of gross don't pay for CE days. As a result, it's not uncommon for associates to want to forego CE. Therefore, the 5.5 days reported here reflect these doctors' desire to invest in their futures even when there may be an economic detriment.

7- to 8-year associates

We sampled the 7- to 8-year associate category, but the number of respondents was so low that we can't provide reliable information. Perhaps this year's survey (see page 51) will provide a stronger showing in this category, and thus a basis for discussion.

A final comment, which I've included in each report: Please understand that your ability to pay salaries—and to pay yourself—is contingent strictly on your ability to generate income. If you find these salary payments unacceptable or below the standard you hope to pay, consider raising your fees. The pool of dollars within your practice is limited, but if you receive a just fee for services rendered, you then can pay a just fee to your most valuable asset—yourself and your employees. ▶